

CLARINDA YOUTH CORPORATION
d/b/a CLARINDA ACADEMY

FINANCIAL REPORT

YEARS ENDED
JUNE 30, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Clarinda Youth Corporation
d/b/a Clarinda Academy
Clarinda, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Clarinda Youth Corporation d/b/a Clarinda Academy (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clarinda Youth Corporation d/b/a Clarinda Academy as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2019, on our consideration of Clarinda Youth Corporation d/b/a Clarinda Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Clarinda Youth Corporation d/b/a Clarinda Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clarinda Youth Corporation d/b/a Clarinda Academy's internal control over financial reporting and compliance.

Brooks Jordan, D.C.

West Des Moines, Iowa
January 4, 2019

CLARINDA YOUTH CORPORATION
d/b/a CLARINDA ACADEMY

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

ASSETS	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,364,265	\$ 403,328
Cash held in trust for students	25,763	27,458
Accounts receivable - trade, less allowance for doubtful accounts 2018 \$40,275; 2017 \$58,292	2,023,696	1,999,462
Prepaid expenses	101,222	151,532
Total current assets	<u>\$ 3,514,946</u>	<u>\$ 2,581,780</u>
PROPERTY AND EQUIPMENT, at cost		
Leasehold improvements	\$ 1,772,725	\$ 1,686,797
Land	202,836	202,836
Buildings	259,704	259,704
Furniture and equipment	859,849	776,530
Office equipment	420,383	439,043
Vehicles	403,785	410,852
	<u>\$ 3,919,282</u>	<u>\$ 3,775,762</u>
Less accumulated depreciation	<u>(2,952,618)</u>	<u>(2,854,537)</u>
	<u>\$ 966,664</u>	<u>\$ 921,225</u>
 Total assets	 <u><u>\$ 4,481,610</u></u>	 <u><u>\$ 3,503,005</u></u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable:		
Trade	\$ 204,633	\$ 240,756
Provider service agreement	1,227,215	361,144
Accrued expenses	6,289	8,836
Student trust fund	25,763	27,458
Total current liabilities	<u>\$ 1,463,900</u>	<u>\$ 638,194</u>
 NET ASSETS		
Unrestricted	\$ 3,017,710	\$ 2,864,811
Total net assets	<u>\$ 3,017,710</u>	<u>\$ 2,864,811</u>
 Total liabilities and net assets	 <u><u>\$ 4,481,610</u></u>	 <u><u>\$ 3,503,005</u></u>

See Notes to Financial Statements.

CLARINDA YOUTH CORPORATION
d/b/a CLARINDA ACADEMY

STATEMENTS OF ACTIVITIES
Years Ended June 30, 2018 and 2017

	Unrestricted	
	2018	2017
REVENUES		
Program service fees	\$ 14,286,967	\$ 12,659,740
EXPENSES		
Provider service fees	\$ 12,484,882	\$ 11,171,200
Professional fees	19,798	17,439
Contract services	15,000	15,000
Support service fees and rent	1,267,412	1,224,789
Educational fees	106,788	101,692
Depreciation	147,633	193,245
Other	181,835	243,220
Total expenses	\$ 14,223,348	\$ 12,966,585
OTHER REVENUE AND EXPENSE		
Investment return	\$ 10,023	\$ 6,926
Contributions	425	280,746
Vocational training fees	77,084	249,627
Other non-operating revenue	15,389	11,455
Other non-operating expense	(14,541)	(12,399)
Gain on sale of fixed assets	900	-
Total other revenue and expense	\$ 89,280	\$ 536,355
CHANGE IN NET ASSETS	\$ 152,899	\$ 229,510
NET ASSETS, beginning of year	2,864,811	2,635,301
NET ASSETS, end of year	\$ 3,017,710	\$ 2,864,811

See Notes to Financial Statements.

CLARINDA YOUTH CORPORATION
d/b/a CLARINDA ACADEMY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 152,899	\$ 229,510
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	147,633	193,245
Bad debt expense	123,000	61,121
Gain on sale of fixed assets	(900)	-
(Increase) and decrease in assets and increase and (decrease) in liabilities:		
Accounts receivable	(147,234)	(159,929)
Prepaid expenses	50,310	17,594
Accounts payable	829,948	105,005
Accrued expenses	(2,547)	4,814
Net cash provided by operating activities	<u>\$ 1,153,109</u>	<u>\$ 451,360</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of property and equipment	\$ 900	\$ -
Purchase of property and equipment	<u>(193,072)</u>	<u>(669,064)</u>
Net cash (used in) investing activities	<u>\$ (192,172)</u>	<u>\$ (669,064)</u>
Increase (decrease) in cash and cash equivalents	\$ 960,937	\$ (217,704)
Cash and cash equivalents:		
Beginning	<u>403,328</u>	<u>621,032</u>
Ending	<u><u>\$ 1,364,265</u></u>	<u><u>\$ 403,328</u></u>

See Notes to Financial Statements.

CLARINDA YOUTH CORPORATION
d/b/a CLARINDA ACADEMY

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization:

Clarinda Youth Corporation (CYC) is a not-for-profit corporation organized to provide residential foster care for male and female adjudicated delinquent and Child in Need of Assistance youths between the ages of 11 and 18. CYC does business as the Clarinda Academy. Students are placed by state courts and other placing agencies throughout the United States. As such, CYC is funded primarily through contracts with various governmental entities. Monthly billings are submitted to these entities and are recorded as accounts receivable on the balance sheet. The risk of loss on these receivables would be the balance owed at the time of a default.

Program:

For purposes of recording unrestricted expenses in the statement of activities, CYC's primary function is providing foster care services. These foster care services consist of education, training, and behavioral rehabilitation. The Clarinda Academy's programs consist of boys and girls residential treatment and community-based services. Each of these tracks employ a behavioral change program utilizing a positive peer pressure approach, academic, vocational and physical education, and life skills training—all aimed at teaching CYC's students how to lead positive and productive lives. The average length of stay in the residential programs is 6 to 12 months, and varies in the community-based program. Academic education is administered under the auspices of the Clarinda Community School District.

A summary of the organization's significant accounting policies follows:

Net assets:

The statement of financial position reports amounts for one class of net assets—unrestricted net assets based on the absence of donor-imposed restrictions. CYC currently does not have the other two classes of net assets, which are temporarily restricted and permanently restricted.

Permanently restricted net assets would include those assets which are permanently restricted by donors. A typical example would be endowment assets.

Temporarily restricted net assets include donor restricted assets which are to be expended for specific purposes. Temporarily restricted net assets also include unconditional promises to give with payments due in future periods. Examples of this might include pledges receivable or life interest gifts.

Unrestricted net assets result from revenues for the providing of CYC's services, the receipt of unrestricted contributions, and the income from income-producing assets, less expenses incurred in providing services and performing administrative functions.

Cash and cash equivalents:

For the purposes of the statement of cash flows, CYC considers all money market funds and all certificates of deposit with original maturities of three months or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies (Continued)

A summary of the organization's significant accounting policies follows: (Continued)

Accounts receivable and allowance for doubtful accounts:

Accounts receivable consist almost entirely of amounts due from government agencies for services provided by CYC. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of specific amounts. Balances still outstanding after management has used reasonable collection efforts are written-off through a charge against the allowance.

Income tax status:

CYC is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code, and annually files a federal return as an exempt organization. CYC has been classified as other than a private foundation by the Internal Revenue Service. CYC is taxed on "unrelated trade or business" income to the extent that it exceeds expenses attributable to such income. No unrelated trade or business income was generated during the fiscal year.

Property and equipment:

CYC follows the practice of capitalizing, at cost, all expenditures for leasehold improvements, equipment, and vehicles in excess of \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives, generally 3 to 20 years.

The applicable accounts are relieved of costs and related accumulated depreciation when assets are sold or otherwise disposed of.

Concentrations of credit risk:

Financial instruments that potentially subject CYC to concentrations of credit risk consist principally of deposits located at one financial institution insured by the Federal Deposit Insurance Corporation (FDIC). Frequently the balances of these cash deposits exceed the federally insured limits.

Individual, group, family and crisis intervention service revenue:

Individual, group, family and crisis intervention service revenue is recorded at the organization's established rates.

The organization has agreements with third-party payors, which provide for reimbursement to the organization at amounts equal to its established rates.

Services related to Medicaid beneficiaries are reimbursed based upon the established rate method or a fee basis, depending on the service.

The laws and regulations under which the Medicaid program operates is complex, subject to frequent change and subject to interpretation. As part of operating under the Medicaid program, there is a possibility that governmental authorities may review the organization's compliance with these laws and regulations. Such review may subject the company to fines and penalties. Although no assurances can be given, management believes they have complied with the requirements of the Medicaid program.

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies (Continued)

A summary of the organization's significant accounting policies follows: (Continued)

Program service revenue:

Program service revenue consists principally of amounts billed to state and county governments nationwide under the terms of agreements to provide program services at per diem rates. For the years ended June 30, 2018 and 2017, this support made up over 99 and 96 percent, respectively, of CYC's total revenues.

Contributions:

Contributions, including unconditional promises to give (pledges receivables), are recognized as revenues in the period received. Contributions of assets other than cash are recorded at their estimated fair value.

CYC distinguishes between contributions received with permanent restrictions, temporary restrictions, and those without donor-imposed restrictions. Contributions with donor-imposed restrictions are reported as restricted support unless CYC meets the donor-imposed restriction on all or a portion of the amount contributed in the same reporting period in which the contribution was received. In those cases the contributions, to the extent the restrictions have been met, are reported as unrestricted support. Receipts of unconditional promises to give with payments due in future periods are reported as restricted support unless it is clear that the donor intended the gift to be used to support activities in the current period. Gifts of long-lived assets received without donor-imposed restrictions are considered unrestricted support.

Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The organization estimates the allocation of expenses between program and management and general, the allowance for doubtful accounts receivable, and depreciation.

The estimated allowance for doubtful accounts receivable is considered a significant estimate and is based on prior collection history and management's knowledge of current year information. Because of the uncertainties surrounding the above assumptions, it is reasonably possible that the estimate of the allowance for doubtful accounts may change in the near future.

Note 2. Line of Credit

CYC had a line of credit with Page County State Bank for a borrowing limit of \$500,000 with a fixed interest rate of 4.45%, which expires August 15, 2018. Borrowings under this commitment were collateralized by accounts receivable, equipment, and furniture of CYC. There was no outstanding balance at June 30, 2018.

NOTES TO FINANCIAL STATEMENTS

Note 3. Provider Service Agreement

CYC has entered into a management and administrative provider service agreement with Sequel Youth Services of Clarinda, L.L.C., an Iowa Limited Liability Company ("Sequel"). Sequel is responsible for the management of the operations of Clarinda Academy subject to the overall authority of CYC's board of directors.

Effective July 1, 2007, CYC and Sequel entered into a new agreement with similar terms and responsibilities of the old agreement. Payments under this new agreement are based on a per diem rate rather than on a percentage of sales basis. This new agreement has a term of 11 years, terminating June 30, 2018, with an automatic 7-year extension. In September 2014, the agreement was extended through June 30, 2024.

The total fees associated with the agreement for the years ended June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Payable beginning of year	\$ 361,144	\$ 378,551
Fees and reimbursements	12,492,840	11,173,805
Payments	<u>(11,626,769)</u>	<u>(11,191,212)</u>
Payable end of year	<u>\$ 1,227,215</u>	<u>\$ 361,144</u>

Note 4. Commitments

Support Services and Lease Agreement:

CYC purchases certain support services from the state of Iowa acting by and through the Department of Corrections (the Department) and the Department of Human Services as its interests may appear. CYC and the Department entered into an agreement for a period of 25 years beginning July 1, 2011. The agreement contains 3 additional automatic 25-year renewal periods. Written notice at least 6 months prior to termination is required of either party in the event of termination.

CYC leases certain premises and land from the state of Iowa acting by and through the Department of Corrections (the Lessor) and the Department of Human Services as its interests may appear. CYC and the Lessor entered into an agreement for a period of 25 years beginning July 1, 2011. The agreement contains 3 additional automatic 25-year renewal periods. Written notice at least 6 months prior to termination is required of the lessee and 30 days prior to termination is required of the lessor in the event of termination. An amendment to the lease includes the approximately 20 acres of land on which the gymnasium is located. The lease payment for the land is based on the rate charged by the Lessor to a farmer for adjoining farm land (\$125 per acre at June 30, 2018).

The leased premises include residential areas including the southwest wards 5-9 and the northeast wards 5, 6, 7, and 9 along with the real estate associated with and proximate to the areas described above. The leased premises also include certain basement space directly beneath southwest wards 5 and 7 and portions of basement space directly beneath northeast wards 5 and 7.

NOTES TO FINANCIAL STATEMENTS

Note 4. Commitments (*Continued*)

Support Services and Lease Agreement (*Continued*):

For the 12 months ended June 30, 2018, this agreement stipulated a capitation rate of \$18.68 per day for the actual number of students on campus or with no student minimums. A day is defined as all days the student is in the program including the day of arrival but excluding the day of departure. CYC is required to provide the Department with accounting information on a monthly basis.

CYC is required to maintain broad form general and liability insurance in a minimum amount of \$1 million per occurrence and \$3 million in the aggregate. CYC also is responsible for maintaining contents insurance at a coverage level determined appropriate by CYC.

The agreement requires that CYC and the Department annually negotiate, in good faith, to adjust the capitation rate by 50 percent of the Consumer Price Index (CPI) to offset increased costs incurred by the Department.

The support services provided by the Department include:

- Utilities and maintenance (except for the gymnasium)
- Food service—3 meals a day plus an evening snack
- Housekeeping services
- Telephone service
- Laundry service
- General upkeep
- Security service

The total expense associated with this agreement, which is included in the statements of activities, was \$1,267,412 and \$1,224,789 for the years ended June 30, 2018 and 2017, respectively.

Education Services Agreement:

During the year ended June 30, 2015, CYC entered into a new 3-year agreement with the Clarinda Community School District (CCSD) ending on June 30, 2018. CYC recognizes that CCSD is responsible for assuring the students receive an educational program consistent with the laws, rules, and regulations of the state of Iowa and the Department of Education; therefore, the academic curriculum is approved and student records are maintained by CCSD. The CCSD charge for these administrative services was \$1.56 for 2018 and \$1.54 for 2017 per day, for every student with no minimum fee.

Total expense under this agreement, which is included in the statements of activities, was \$106,788 and \$101,692 for the years ended June 30, 2018 and 2017, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 5. Functional Expenses

The expenditures for salaries, benefits, and reimbursable program expenses were allocated directly as they were specifically identified to a program or supporting services. The allocation of all other expenses is made on the ratio of time spent on a program or supporting service to the total time spent in the year. The following represents the functional classification of the organization's expenses for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Program services	\$ 12,873,436	\$ 11,657,545
Management and general	<u>1,349,912</u>	<u>1,309,040</u>
Total expenses	<u>\$ 14,223,348</u>	<u>\$ 12,966,585</u>

Note 6. Operating Lease Agreements

CYC has a month-to-month residential lease agreement with the Executive Director. Rent under the agreement is \$850 per month. Gross rental income for the years ended June 30, 2018 and 2017 was \$10,200 and \$8,925, respectively, and is included in other non-operating revenue in the statements of activities.

CYC has a year-to-year rental agreement for farm land expiring March 1, 2019. Rent is paid in semi-annual installments of \$2,530. Gross rental income for the years ended June 30, 2018 and 2017 was \$5,060 and \$2,530, respectively, and is included in other non-operating revenue in the statements of activities.

Future minimum rentals under these agreements are as follows:

<u>Year Ending June 30,</u>	
2019	<u>\$ 2,530</u>

The carrying amount of property and equipment leased under these arrangements is as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 53,368	\$ -	\$ 53,368
Building	<u>183,875</u>	<u>12,009</u>	<u>171,866</u>
Total	<u>\$ 237,243</u>	<u>\$ 12,009</u>	<u>\$ 225,234</u>

NOTES TO FINANCIAL STATEMENTS

Note 7. Subsequent Events

Management of the organization has evaluated subsequent events through January 4, 2019, the date the financial statements were available to be issued, and has concluded there were no items requiring disclosure.

CLARINDA YOUTH CORPORATION
d/b/a CLARINDA ACADEMY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number/Contract #	Federal Expenditures
Indirect			
U.S. Department of Health and Human Services			
Iowa Department of Human Services:			
Foster Care Title IV-E	93.658	ACFS 18083	\$ 216,485
Iowa Department of Human Services:			
Foster Care Title IV-E	93.658	ACFS 18069	41,352
City and County of San Francisco Human Services Agency:			
Foster Care Title IV-E	93.658	N/A	53,525
County of San Diego Human Services Agency:			
Foster Care Title IV-E	93.658	1801 CAFOST	142,837
			<u>\$ 454,199</u>
 City and County of San Francisco Human Services Agency:			
Adoption Assistance	93.659	N/A	<u>\$ 22,220</u>
 Iowa Department of Human Services:			
Stephanie Tubbs Jones Child Welfare Services Program	93.645	ACFS 18083	\$ 37,410
Iowa Department of Human Services:			
Stephanie Tubbs Jones Child Welfare Services Program	93.645	ACFS 18069	4,782
			<u>\$ 42,192</u>
 County of San Diego Human Services Agency:			
Social Services Block Grant	93.667	1801 CASOSR	<u>\$ 31,720</u>
 U.S. Department of Agriculture			
Child Nutrition Cluster			
Iowa Department of Education			
School Breakfast Program	10.553	N/A	\$ 132,654
National School Lunch Program	10.555	N/A	229,461
			<u>\$ 362,115</u>
 Total expenditures of federal awards			<u>\$ 912,446</u>

Note A--Basis of Presentation

The schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Clarinda Youth Corporation under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Clarinda Youth Corporation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Clarinda Youth Corporation. Pass-through entity identifying numbers are presented where available.

Note B--Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

Note C--Indirect Cost Rate

Clarinda Youth Corporation has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note D--Subrecipients

There were no awards passed through to subrecipients.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Clarinda Youth Corporation
d/b/a Clarinda Academy
Clarinda, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Clarinda Youth Corporation d/b/a Clarinda Academy (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 4, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brooks Ladd, P.C.

West Des Moines, Iowa
January 4, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Clarinda Youth Corporation
d/b/a Clarinda Academy
Clarinda, Iowa

Report on Compliance for Each Major Federal Program

We have audited Clarinda Youth Corporation d/b/a Clarinda Academy's (the organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the organization's major federal programs for the year ended June 30, 2018. The organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and is described in the accompanying schedule of findings and questioned costs as item 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

The organization's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Brando Jack, P.C.

West Des Moines, Iowa
January 4, 2019

CLARINDA YOUTH CORPORATION
d/b/a CLARINDA ACADEMY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

Part I. Summary of Independent Auditor's Results

Financial Statement Section:

Type of auditor's report issued:	<u>Unmodified Opinion</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ Yes	<u> X </u> No
Significant deficiency(s) identified?	_____ Yes	<u> X </u> None Reported
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No

Federal Awards Section:

Internal control over major programs:		
Material weakness(es) identified?	_____ Yes	<u> X </u> No
Significant deficiency(s) identified?	_____ Yes	<u> X </u> None Reported

Type of auditor's report on compliance for major programs:	<u>Unmodified Opinion</u>	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	<u> X </u> Yes	_____ No

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
Identification of major programs: 93.658	Foster Care Title IV-E
Dollar threshold used to determine Type A and Type B programs:	<u>\$750,000</u>
Auditee qualified as low-risk auditee?	_____ Yes <u> X </u> No

CLARINDA YOUTH CORPORATION
d/b/a CLARINDA ACADEMY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

Part II. Findings Related to the Financial Statements

None

Part III: Findings and Questioned Costs for Federal Awards

Significant Deficiencies:

None

Instances of Non-Compliance:

Finding 2018-001: Audit Package and Data Collection Form Submission

Criteria – Uniform Guidance requires the audit package and the data collection form to be submitted thirty days after receipt of the audit report or nine months after the end of the fiscal year, whichever comes first.

Condition – The audit package and data collection form for the year ended June 30, 2017 was submitted in May 2018, which is after the required deadline.

Cause – The late filing was due to miscommunication with the auditor. The organization relied on the auditor to submit the audit package and data collection form, and the auditor assumed the organization would submit the audit package to the Federal Audit Clearinghouse.

Effect – Submission of the audit package and data collection form was not completed by the required deadline.

Perspective – There was a change in in-charge auditor during the year the finding occurred, and was a result of miscommunication between the auditor and the organization. This is determined to be an isolated incident.

Recommendation – Filing of the audit package and the data collection form needs to be completed and filed within the required time frame.

Reporting Views of Responsible Officials – Safeguards have been implemented to prevent oversight of the audit package and data collection form due date, and will be filed timely going forward.

CLARINDA YOUTH CORPORATION
d/b/a CLARINDA ACADEMY

CORRECTIVE ACTION PLAN FOR FEDERAL AUDIT FINDINGS
Year Ended June 30, 2018

Comment Number	Comment Title	Corrective Action Plan	Contact Person Title Phone Number	Anticipated Date of Completion
2018-001	Audit Package and Data Collection Form Submission	Our corrective action plan was documented in our response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Jeff Slaymaker Controller (712) 542-3103	Fiscal Year 2019